

# 22

## Personal Exemptions

Each personal exemption you claim on your 1996 return is the equivalent of a \$2,550 deduction. Exemptions for children, parents, and other dependents are allowed if the tests of this chapter are met.

If you have a high adjusted gross income, you may lose the benefit of your deduction under the phase-out rule discussed in ¶22.15.

<i>Number of Exemptions</i>	<i>Deduction Allowed</i>
1	\$ 2,550
2	5,100
3	7,650
4	10,200
5	12,750
6	15,300
7	17,850
8	20,400
9	22,950
10	25,500

How Many Exemptions May You Claim?

Your Spouse as an Exemption

Test 1. Relationship Test

Unrelated or Distantly Related Dependents Living With You

Test 2. Gross Income Earned by Your Dependent

Children Under Age 19 or Full-Time Students Under Age 24

Test 3. 50% Support Test

Lodging and Food as Support

Examples of Allocating Support

Multiple Support Agreements

Divorced or Separated Parents

Test 4. The Dependent Is a Citizen or Resident

Test 5. The Dependent Does Not File a Joint Return

Reporting Social Security Numbers of Dependents

Phaseout of Personal Exemptions for Higher Income Taxpayers

*See ¶*

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## ¶22.1 How Many Exemptions May You Claim?

You may claim an exemption for:

- **Yourself.** You claim an exemption for yourself unless you are the dependent of another taxpayer. If someone else can claim you as a dependent for 1996, you may not claim a personal exemption for yourself on your own return; this is true even if the other person does not actually claim you as a dependent. This rule prevents your child or other dependent from claiming an exemption on his or her return if you may claim an exemption for the child or other dependent.
- **Your spouse.** You claim your spouse as an exemption when you file a joint return. If you file a separate return, you claim your spouse as an exemption if he or she has no income and is not a dependent of another person; see ¶22.2.
- **Children, parents, and other dependents.** There is no limit to the number of dependents you may claim, provided you satisfy five tests for each dependent: a relationship test; a support test; an income test; a citizenship or residency test; and, for married dependents, a joint return test. See the chart on the next page.

You must obtain and report on your 1996 return the Social Security number of each dependent who was born before December 1, 1996; see ¶22.14.

**Caution: phaseout of exemptions.** Your 1996 deduction for exemptions is phased out if your adjusted gross income exceeds these thresholds: \$176,950 if married filing jointly; \$147,450 if filing as head of household; \$117,950 if filing as single; and \$88,475 if married and filing separately. See ¶22.15 for full details.

## ¶22.2 Your Spouse as an Exemption

Your spouse is not your dependent for tax purposes. An exemption for a spouse is based on the marital relationship, not support. On a joint return, each spouse receives an exemption as a taxpayer.

On a separate return, you may claim your spouse as an exemption if he or she has no gross income and is not the dependent of another taxpayer. You may not claim an exemption for your spouse who has income, *unless you file a joint return which includes that income*. For example, if a wife files a separate return, her husband may not claim her as an exemption, even if she filed the return merely for a refund of taxes withheld on her wages.

If your spouse is a nonresident alien, has no income from U.S. sources, and is not a dependent of another person, you may claim an exemption for your spouse on a separate return.

**If divorced or legally separated during the year.** You may not claim your former spouse as an exemption if you are divorced or legally separated under a *final* decree of divorce or separate mainte-

nance, even if you provided his or her entire support. However, an interlocutory (not final) decree does not bar you from claiming your spouse as an exemption.

### EXAMPLE

An interlocutory (not final) decree of divorce is entered in 1996, and a final decree in 1997. For 1996, the couple may file a joint return on which exemptions for both are claimed. A marriage is not dissolved until a final decree is entered, which in this case is in 1997.

**Your spouse died during the year.** If you did not remarry and your deceased spouse had gross income, you may claim an exemption for your spouse only if you file a joint return that includes his or her income. You may claim the exemption on a separate return only if your spouse had no gross income and was not a dependent of another taxpayer.

### EXAMPLE

Sylvia Smith dies on June 27. Her husband Steve Smith may file a joint return and claim Sylvia as an exemption. They were married as of the date of Sylvia's death. The joint return includes all of Steve's income for the year, but only that part of Sylvia's income earned up to June 27; see ¶1.5.

If you remarry before the end of the year in which your spouse died, you may not claim an exemption for your deceased spouse. If you file a joint return with your new spouse, you may be claimed as an exemption on that return. If you had *no* income for the year, you may be claimed as an exemption on both your deceased spouse's separate return and on a separate return filed by your new spouse, provided no one else may claim you as a dependent.

## ¶22.3 Test 1. Relationship Test

If the other tests are met (Tests 2–5 on the next page), you may claim an exemption for a dependent relative listed in this section, even if he or she is an adult, healthy, and capable of self-support. An unrelated person or distantly related person not listed may still qualify as an exemption under the tests at ¶22.4.

**Your children.** If your child was born at the end of 1996, you may claim a full \$2,550 exemption for that child.

A stillborn child may not be claimed as an exemption. The exemption is allowed for a child who was born alive even if the infant lived for only a moment.

**Stepchildren.** Your stepchild is considered your child.

**Adopted children.** A *legally adopted* child is treated as your child. A child is considered legally adopted when a court decree is entered. In states allowing interlocutory (not final) adoption decrees, you may claim the exemption in the year the interlocutory decree is entered.

## TESTS FOR CLAIMING DEPENDENTS

### TEST 1. RELATIONSHIP OR MEMBER OF HOUSEHOLD TEST

The person must be either:

*Your relative*—child, stepchild, adopted child, grandchild, great-grandchild, son- or daughter-in-law, father- or mother-in-law, brother- or sister-in-law, parent, brother, sister, grandparent, step-parent, stepbrother or sister, half-brother or sister, and, if related by blood, an uncle, aunt, niece, or nephew. These relatives do not have to live with you. However, a foster child qualifies only if he or she is a member of your household for the entire year, apart from temporary absences; *see* ¶22.3.

*Or*—any person, whether related or not, who is a member of your household for the entire year, except for temporary absences. The exemption is not allowed if the person was your spouse at any time during the year, or if your relationship with such person is in violation of state law; *see* ¶22.4.

### TEST 2. GROSS INCOME TEST

*Your child*—If at the end of 1996 your child was under age 19, or was a full-time student under age 24 (¶22.6), his or her income does not matter. You can claim the child as your dependent if Tests 3, 4, and 5 are met. However, a child who was age 19–23 and not a full-time student at the end of the year, or who was age 24 or older, may be claimed as your dependent only if his or her gross income was less than \$2,550 in 1996.

*Other relatives or household members*—must have gross income of less than \$2,550 in 1996.

The \$2,550 income limit will be adjusted for inflation in 1997.

### TEST 3. SUPPORT TEST

You either contribute more than half the dependent's support, or contribute more than 10% and together with others contribute more than half; *see* ¶22.7 and ¶22.10.

Total the dollar amount of support spent on a dependent by you, by others, and by the dependent. If your contribution is:

- *More than 50% of the total spent*—you claim the exemption.
- *More than 10% of the total spent and together with what you and the other contributors gave is more than 50% of the total spent*—you or one of the others who also contributed more than 10% may claim the exemption. You and the others must decide who is to claim the exemption. If you take it, you must attach to your return a Form 2120, "Multiple Support Declaration," signed by each person who contributed more than 10%.
- *Less than 50%, either alone or with the contribution of others*—neither you nor the other contributors may claim the exemption for the dependent.

Special support rules apply to divorced or separated parents; *see* ¶22.11.

### TEST 4. CITIZENSHIP OR RESIDENT TEST

Your dependent is a United States citizen or national, or a resident of the United States, Canada, or Mexico; *see* ¶22.12.

### TEST 5. JOINT RETURN TEST

Your married dependent does not file a joint return with his or her spouse; *see* ¶22.13 for an exception.

If a court decree has not been entered, a child may be your dependent provided he or she was placed with you for adoption by an authorized adoption agency and was a member of your household for the rest of the year. If the child has not been placed with you for adoption by an agency, you may claim the child as a dependent *only if* he or she was a member of your household for the entire tax year; see ¶22.4.

**Foster child.** A foster child is considered to be your child if he or she is a member of your household for the entire year except for temporary absences.

**Other qualifying relatives.** The following individuals also meet the relationship test: your parent, grandparent, step-parent, grandchild, great-grandchild, brother, sister, half-brother, half-sister, step-brother, stepsister, son- or daughter-in-law, father- or mother-in-law, and brother- or sister-in-law. If related by blood, aunts, uncles, nieces, and nephews also qualify.

**Stepchild's husband or wife or child.** Your stepchild's spouse does not meet the relationship test. Nor may you claim an exemption for a step-grandchild if you file a separate return. They are not on the list of relatives qualifying. But you may claim them as exemptions on a joint return. On a joint return, it is not necessary that the close relationship exist between the dependent and the spouse who furnishes the chief support. It is sufficient that the relationship exists with either spouse.



### Nephew, Niece, Uncle, and Aunt

Nephews, nieces, uncles, and aunts must be your blood relatives to qualify under the relationship test. For example, the brother or sister of your father or mother qualifies as your relative; their spouses do not. You may not claim your spouse's nephews, nieces, uncles, or aunts unless you file a joint return; see the following Example.

#### EXAMPLE

You contribute more than half of the support of the sister of your wife's mother (your wife's aunt). If you and your wife file a joint return, her aunt is allowed as an exemption on your joint return. But your wife's aunt's husband is not related by blood to you or your wife. You cannot claim an exemption for him, even on a joint return, unless he is a member of your household under the rules of ¶22.4.

**In-laws.** Brother-in-law, sister-in-law, father-in-law, mother-in-law, son-in-law, and daughter-in-law are relatives by marriage. You may claim them as exemptions if you meet the other tests in this chapter.

You may claim an exemption for an in-law who was related to you by marriage and whom you continue to support after divorce or the death of your spouse.

#### EXAMPLE

Allen has contributed all the support of his father-in-law since he was married. Allen's wife died in 1995. He continued sole support of his wife's father in 1996. Allen may claim him as an exemption in 1996.

**Death during the year.** If a relative died during 1996 but was supported by you while alive, and you meet the other tests listed in this chapter, you may claim an exemption.

#### EXAMPLE

On January 21, 1996, your father died. Until that date, you contributed all of his support. You may claim him as an exemption for 1996. The full deduction is taken. Exemptions are not prorated.

## ¶22.4 Unrelated or Distantly Related Dependents Living With You

A friend or a relative not listed in ¶22.3—such as a cousin who lives with you—can be your dependent. You may claim an unrelated or distantly related person as a dependent if the other dependent tests are met *and*:

1. The person is a member of your household; and
2. Your home is his or her principal home for the entire year, except for absences when attending school, vacationing, or being confined to a hospital. You may not claim a friend as an exemption when you live in his or her house even though you provide support. You are living in his or her household—not your own. Also, you cannot claim an exemption for a friend who lives in your house and renders you services in return for your care.

#### EXAMPLES

1. Carol Barnes supports her niece Phyllis, who lives in Carol's house all year. Carol can claim Phyllis as a dependent member of her household if Phyllis meets the citizenship test (¶22.12) and has gross income under \$2,550 in 1996 (¶22.5).
2. Roger Johnson provides a home for an orphan for seven months. He cannot claim the child as a dependent; the child did not live in his home for the entire year. However, if the child had been placed in his home for adoption by an authorized adoption agency, he or she may be claimed as Johnson's dependent although not a member of his household for the entire year; see the adopted children rule at ¶22.3.
3. Mike Pilla supports a cousin, Janet, who lives in a house owned by him. Mike lives elsewhere and may not claim his cousin as a dependent because they do not live in the same house.

**Your spouse or former spouse.** Under the tax law, one spouse is not considered a dependent of the other; see ¶22.2. If you are

divorced or legally separated during the year, your former spouse cannot qualify as your dependent even if he or she is a member of your household for the whole year.



### Exemption for Unmarried Mate

An exemption for an unmarried mate depends on local law. Where the relationship violates local law, no exemption may be claimed. As the following Example indicates, local law prevails in disputes with the IRS about claiming an exemption in such cases.

#### EXAMPLE

Ensminger lived in North Carolina with a woman whom he supported. When he claimed an exemption for her, the IRS disallowed the exemption, claiming that under North Carolina law it is a misdemeanor for an unmarried man and woman to live together. When the Tax Court supported the IRS position, Ensminger appealed, arguing that the North Carolina law was an unconstitutional invasion of his right to privacy. The appeals court held that constitutionality was not an issue for the IRS and Tax Court to decide. The states are responsible for regulating domestic affairs. Federal tax law merely follows the direction of state law. If Ensminger lived in a state that did not hold his relationship illegal, he could claim the exemption.

In a similar case, a dependency exemption was allowed where the court ruled cohabitation did not violate Missouri law.

## ¶22.5 Test 2. Gross Income Earned by Your Dependent

There is no gross income test for your dependent child who at the end of the year is (1) under age 19, or (2) a full-time student under age 24. He or she may earn any amount, and be claimed as an exemption, provided you meet the support test of ¶22.7 and the tests at ¶22.12 and ¶22.13.

The gross income test applies only to—

- Dependents who are not your children—such as parents, in-laws, sisters, brothers, uncles, aunts, and members of your household; *and*
- Your children who at the end of the year are age 19 or over and not full-time students, *or* children who are full-time students age 24 or older at the end of the year; *see* ¶22.6.

**Dependents' 1996 gross income must be less than \$2,550.** The gross income test requires your dependent to have a gross income of less than \$2,550 in 1996. If a dependent earns \$2,550 or more, he or she may not be claimed as an exemption, even if all of the support is provided by you. As noted above, the only exception is for your children who are under age 19 or who are full-time students under age 24; *see* ¶22.6.

Gross income here means taxable income items includible in the dependent's tax return. It does not include nontaxable items such as gifts and tax-exempt bond interest. Gross income for a service-type business is gross receipts without deductions of expenses and for a manufacturing or merchandising business is total sales less cost of goods sold. A partner's share of partnership gross income, not the share of net income, is treated as gross income.

Gross income does not include income earned by a totally and permanently disabled individual at a school operated by a government agency or tax-exempt organization, if the school provides special instruction for alleviating the disability and the income is incidental to medical care received.

Social Security benefits are treated as gross income only to the extent they are taxable under the rules of ¶34.3.

#### EXAMPLES

1. Larry Jones gives \$4,000 a year for his father's support. The father owns a two-family house. He lives in one apartment and rents the other for \$215 a month, giving him a gross annual income of \$2,580. After deducting interest and taxes, his net income is \$1,200. Larry may not claim his father as a dependent as his gross income is not under \$2,550.
2. Lisa Burr's son, age 21 and *not* a full-time student (¶22.6) in 1996, received \$10,000 in damages for personal injuries suffered in an accident. His only other income was bank interest of \$450. Since the damages are excluded from gross income (¶12.10), the gross income test is satisfied. However, if Lisa's son used part of the damages to support himself, she may claim him as a dependent for 1996 only if her support contributions were larger; *see* the checklist of support items in ¶22.7.
3. Kent Dolin's widowed father received \$5,000 in Social Security benefits which he used to support himself (¶22.7). He also received \$1,200 in bank interest. Under ¶34.3, the benefits are not subject to tax and therefore not treated as gross income. His gross income of \$1,200 is below the \$2,550 limit. If Kent contributed more than \$5,000 to his support, he meets the support test (¶22.7) and may claim his father as a dependent.

## ¶22.6 Children Under Age 19 or Full-Time Students Under Age 24

The tax law provides you with the following tax break for dependent children. There is no gross income test (¶22.5) for—

1. Your children who are under age 24 as of the end of the year if they are full-time students; *and*
2. Your children under age 19 as of the end of the year.

This rule applies to your child, stepchild, and adopted child. It also applies to a foster child who, for the entire year, is a member of your household. It does not apply to a grandchild, a son- or daughter-in-law, or a brother or sister who is a full-time student; they must have gross income of less than \$2,550 to qualify as your dependents.





### Students Age 24 or Older

The favorable rule that disregards income of full-time students applies only to students who are under age 24 as of the end of the year. If your child was age 24 or older at the end of 1996 and had gross income of \$2,550 or more, you may not claim him or her as your dependent.

**Qualifying as a full-time student.** A full-time student is one who attends school full time during at least five calendar months in the tax year. For example: attendance from February through some part of June—or from February through May and then at least one month from September through December—qualifies. The five months do not have to run consecutively. Attendance at a vocational, trade, or technical school for the five-month period qualifies, but not correspondence schools or on-the-job training courses.

### EXAMPLES

1. Benita Rosa's unmarried daughter, who is age 22, attended college full time until she graduated in June. The gross income test does not apply to her earnings in 1996. However, Benita must meet the support test (¶22.7) to claim her daughter as her dependent.
2. Peter Block's son John, who is age 19, worked during the first half of the year and then started college in September. Peter may not claim John as an exemption if he earned \$2,550 or more. Although John is a full-time student as of the end of the year, he did not attend school for at least five months during the year.

**Night school.** Your child who attends night school is considered a full-time student *only if* he or she is enrolled for the number of hours or classes that is considered full-time attendance at a similar daytime school.



### Support of Children Earning Income

Although there is no gross income test for your children who are under age 19 or who are full-time students under age 24, you must still meet the support test of ¶22.7 to claim them as your dependents. If your child has income, be prepared to show either that the income was not used for his or her support, or that your support contributions were larger. Use the checklists at ¶22.7 for determining what must be treated as "support."

## ¶22.7 Test 3. 50% Support Test

If your dependent has no financial means and you are the only person contributing to his or her support during the year, you can skip the following discussion on support. You meet the support test. You contribute 100% of the dependent's support. If, however, the dependent or other persons or organizations contribute to his or her support, you have to determine whether your contribution exceeds 50% of the dependent's total support.

**Meeting the support test.** Follow these steps to figure support: (1) Total the value of the support contributed by you, by the dependent, and by others for the dependent. Use the checklists later in this section for determining what to include in total support and what to exclude. (2) Determine your share of the total. If your share is more than 50% of the dependent's total support, you meet the support test. It does not matter how many months or days you provided the support; only the total cost of the support is considered. If the dependent or some other person or organization contributed 50% or more of the dependent's support, you may not take the exemption. If the dependent or someone else did not contribute 50% or more of the support, and you contributed more than 10% of the total support, you may be able to claim the exemption under a multiple support agreement; *see* ¶22.10.

**Divorced or separated parents contributing to support of their children** should follow the special support rules at ¶22.11.

### CHECKLIST OF SUPPORT ITEMS:

- Food and lodging; *see* ¶22.8.
- Clothing.
- Medical and dental expenses, including premiums paid for health insurance policies and supplementary Medicare.
- Education expenses such as tuition, books, and supplies. If your child receives a student loan and is the primary obligor, the loan proceeds are considered his or her own support contribution. This is true even if you are a guarantor of the loan. Scholarships received by full-time students are *not* treated as support; *see* the following checklist of nonsupport items.
- Cars and transportation expenses. Include the cost of a car bought for a dependent as support. If you buy a car but register it in your own name, the cost of the car is *not* support provided by you, but any out-of-pocket expenses you have for operating the car are part of your support contribution.
- Recreation and entertainment. A TV set bought for your child or other dependent is support. Also include costs of summer camp, singing and dancing lessons, and musical instruments, as well as wedding expenses.

**Personal savings, Social Security, and tax-free income may be support.** In figuring a person's total support, include his or her tax-exempt income, personal savings, and Social Security benefits if actually used for support items such as food, lodging, or clothing. Also include support items that are financed by loans. Income that is invested and not actually spent for support is not included in the earner's total support.

Where husband and wife are paid Social Security benefits in one check made out in their joint names, 50% is considered to be used by each spouse unless shown otherwise.

**Government benefits.** In figuring whether you have provided more than 50% of the dependent's support, you have to consider certain government benefits as support provided by a third party. For example, welfare, including AFDC (Aid to Families with Dependent Children), food stamps, or housing payments based on need, are state support payments if they are used for support items. G.I. Bill education assistance is support provided by the government.

Foster care payments by a child placement agency to parents are support provided by the agency and not by the parents. The value of board, lodging, and education provided to a child in a state juvenile home is treated as support provided by the state.

When a person joins the Armed Forces, the value of board, lodging, and clothing he or she receives is treated as the government's support contribution. However, if *you* are in the Armed Forces, dependency allotments withheld from your pay and used to support your dependents are included in *your* support contributions for them. Also included in your support contribution is a military quarters allowance covering a dependent.

### CHECKLIST OF ITEMS NOT COUNTED AS SUPPORT:

- Federal, state, and local income taxes and Social Security taxes paid by the dependent from his or her own income.
- Funeral expenses.
- Life insurance premiums.
- Medicare Part A (basic Medicare) and Part B (Supplementary Medicare benefits). In one case the IRS argued that Medicaid benefits were includible in total support but the Tax Court disagreed, holding that Medicaid is similar to excludable Medicare benefits.
- Medical insurance benefits received by the dependent.
- Scholarships received by your child, stepchild, or legally adopted child who is a full-time student for at least five calendar months during the year. Scholarship aid is counted as support contributed by the child if he or she is not a full-time student for at least five months. Naval R.O.T.C. payments and payments made under the War Orphans Educational Assistance Act are scholarships that are not counted as support. State aid to a handicapped child for education or training, including room and board, is a scholarship.

### EXAMPLES

1. Anna Chung's son invests half of his earnings from a part-time job and spends the other half on recreation. The invested earn-

ings are not treated as support. If Anna's support payments exceed the amount her son spent for recreation, and no one else contributes to his support, Anna meets the support test.

2. Eric Hill receives Social Security benefits of \$6,000 and also \$300 in bank interest. He spends \$4,400 on food, clothes, transportation, and recreation. The \$4,400 spent is his contribution to his own support. Eric's rent, utilities, medical expenses, and other necessities are paid by his son, Mike. If Mike's payments exceed \$4,400, and no one else contributes to Eric's support, Mike may claim Eric as a dependent.
3. Social Security benefits paid to children of deceased workers *which are used for their support* are treated as the children's contribution to their own support. Follow this rule even though benefits are paid to you as the child's parent or custodian. If the Social Security benefits used for a child's support are more than half of the child's total support, no one may claim the child as a dependent.

## ¶22.8 Lodging and Food as Support

You count as support the *fair rental value* of a room, apartment, or house in which the dependent lives. In your estimate, you include a reasonable allowance for the rental value of furnishings and for heat and other utilities. You do *not* add payments of rent, taxes, interest, depreciation, paint, insurance, and utilities. These are presumed to be accounted for in the fair rental estimate. The fair rental value of lodging you furnish a dependent is the amount you could reasonably expect to receive from a stranger for the lodging.

**Does dependent live in own home?** If the dependent lives in his or her own home, treat the total fair rental value as his or her own contribution to support. However, if you help maintain his or her home by giving cash, or you directly pay such expenses as the mortgage, real estate taxes, fire insurance premiums, and repairs, you reduce the total fair rental value of the home by the amount you contributed; *see* Example 1 on the next page.

If you lived with your dependent rent-free in his or her home, the fair rental value of lodging furnished to you must be offset against the amounts you spent for your dependent in determining the net amount of your contribution to his or her support.

**Food and other similar household expenses.** If the dependent lives with you, you divide your total food expenses equally among all the members of your household, unless you have records showing the exact amount spent on the dependent; *see* the Examples in ¶22.9. If he or she does not live with you, you count the actual amount of food expenses spent by or for that dependent.

**Do you pay for a relative's care in a health facility?** If you pay part of a relative's expenses for care in a state-supported hospital or nursing home, your payment is a support contribution. If you make a lump-sum contribution covering a relative's stay in an old-age home or other care facility, you prorate your payment over the relative's

life expectancy to determine the current support contribution; *see* Examples 2 and 3 below.

### EXAMPLES

1. You contribute \$7,000 as support to your father who lives in his own home, which has a fair rental value of \$6,000 a year. He uses \$2,600 of the money you give him to pay real estate taxes. He spends \$3,000 of his Social Security for recreation and invests the rest. He has no gross income (¶22.5) and receives no other support. Your father's total support is computed as follows:

Cash contributed by you	\$ 7,000
Fair rental value of house	
(\$6,000 less \$2,600 for taxes)	3,400
Social Security spent	<u>3,000</u>
Father's total support	\$13,400

You may claim your father as a dependent because your contribution of \$7,000 exceeds half of his total support.

2. A son secures his father's placement in a religious home for a lump-sum payment of \$89,600. The payment was determined on the basis of \$11,200 a year over the father's life expectancy of eight years. If the father dies within eight years no refund is due. The son counts \$11,200 as an annual contribution to his father's support. If this is more than half of his father's yearly support costs, the son may claim the exemption. If the father fails to reach his life expectancy, the son may *not* deduct any unused part of the \$89,600 as a charitable deduction.
3. In 1996, your father was a patient in a state hospital. The state required you to pay part of his expenses and you paid the state \$8,000. In the state budget report for 1996, the average cost of maintaining an individual in the hospital was listed as \$15,000. As you contributed over half of your father's support, you may claim him as a dependent. If he required special care, such as private nursing or a major operation, the actual cost to the state agency for maintaining him during the year, rather than the average cost, would be used to measure your father's total support.

tions must exceed 50% of this dependent's support costs. Mark your checks for the benefit of the dependent, or provide the dependents with a written statement of your support arrangement at the time you start your payments. The IRS says its agents will generally accept such evidence of your arrangement. If you do not designate for whom you are providing support, your contribution is allocated equally among all members of a household (*see* Example 3 on the next page).

### EXAMPLES

1. Your father lives in your home with you, your spouse, and your three children. He receives Social Security benefits of \$9,800, which are not subject to tax (¶34.3) and half of which (\$4,900) he spends for his own clothing, travel, and recreation. You spend \$6,600 for food during the year. You also paid his dental bill of \$500. You estimate the annual fair rental value of the room furnished him is \$3,600. Your father's total support is:

Social Security used for support	\$ 4,900
Share of food costs (½ of \$6,600)	1,100
Dental bill paid by you	500
Rental value of room	<u>3,600</u>
	\$10,100

You can claim him as a dependent. You contributed more than half his total support, or \$5,200 (\$3,600 for lodging, \$500 for dental, and \$1,100 for food).

2. Your parents live with you, your spouse, and your two children in a house you rent. The fair rental value of their room is \$3,000. Your father receives a tax-free government pension of \$5,200, all of which he spent equally for your mother and himself for clothing and recreation. Your parents' only other income was \$3,000 of tax-exempt interest. They did not make any other contributions towards their own support. Your total expense in providing food for the household is \$6,000. You pay heat and utility bills of \$1,200. You paid your mother's medical expenses of \$600. Your father's total support from all sources is \$5,100; your mother's is \$5,700, figured as follows:

	Father	Mother
Fair rental value of room	\$1,500	\$1,500
Pension used for their support	2,600	2,600
Share of food costs (½ of \$6,000)	1,000	1,000
Medical expenses for mother		<u>600</u>
	\$5,100	\$5,700

In figuring your parents' total support, you do not include the cost of heat and utilities, because these are presumed to be included in the fair rental value of the room (\$3,000).

The support you furnish your father, \$2,500 (lodging, \$1,500; food, \$1,000), is *not* over half of his total support of \$5,100. The support you furnish your mother, \$3,100 (lodging, \$1,500; food, \$1,000; medical, \$600), is over half of her total support of \$5,700. You can claim your mother as a dependent but not your father. Since she did not have taxable income, the gross income test (¶22.5) is satisfied.

## ¶22.9 Examples of Allocating Support

The Examples in this section illustrate how you should allocate various support items when your contributions benefit more than one person or when your dependent provides part of his or her own support.

**Earmarking support to one dependent.** If you are contributing funds to a household consisting of several persons and the amount you contribute does not exceed 50% of the total household support, you may be able to claim an exemption for at least one dependent by earmarking your support to his or her use. Your earmarked contribu-



3. A husband who lives apart from his family without a divorce or legal separation sends his wife \$3,240 to meet household expenses. A son and daughter live with her. The wife contributes from her own funds \$6,480; an uncle sends her \$1,080. The total amount going to meet household expenses from all sources is \$10,800. On a separate return, the husband may not claim any exemptions for his children; his contributions are less than 50% of their total support. As he has not earmarked who is to get his contributions, his payments are allocated equally among the three members of the household. Each is considered to have received \$1,080 from him. His contribution of \$1,080 is less than half of the total support of \$3,600 allocated to each child.

Contributed by:	Allocated to:			
	Wife	Son	Daughter	Total
Wife	\$2,160	\$2,160	\$2,160	\$ 6,480
Husband	1,080	1,080	1,080	3,240
Uncle	<u>360</u>	<u>360</u>	<u>360</u>	<u>1,080</u>
Total	\$3,600	\$3,600	\$3,600	\$10,800

4. Same facts as in Example 3 except that the husband notes on his monthly checks of \$270 that \$180 is for his son and \$90 for his daughter. He may claim his son as an exemption on a separate return; he has contributed more than half of the son's support. As total household costs of \$10,800 are allocated equally among the three household members, the wife's contribution is reallocated to make up for the difference created by the husband's increased support to the son. Here, the wife is considered to have contributed \$3,240 to her own support.

Contributed by:	Allocated to:			
	Wife	Son	Daughter	Total
Wife	\$3,240	\$1,080	\$2,160	\$ 6,480
Husband		2,160	1,080	3,240
Uncle	<u>360</u>	<u>360</u>	<u>360</u>	<u>1,080</u>
Total	\$3,600	\$3,600	\$3,600	\$10,800

5. Assume that in Example 4 the mother contributed only \$6,240 and her son contributed \$240. There would be no change in tax consequences; however, the allocation of support contributions would differ. The son's contribution is added to the total household costs, which are allocated equally among the family members to find how much applies to each person's support. However, in determining support contributions, the son is treated as contributing \$240 to his own support.

Contributed by:	Allocated to:			
	Wife	Son	Daughter	Total
Wife	\$3,240	\$ 840	\$2,160	\$ 6,240
Son		240		240
Husband		2,160	1,080	3,240
Uncle	<u>360</u>	<u>360</u>	<u>360</u>	<u>1,080</u>
Total	\$3,600	\$3,600	\$3,600	\$10,800

## ¶22.10 Multiple Support Agreements

Are you and others sharing the support of one person, but with no one individual providing more than half of his or her total support? You may claim the dependent as an exemption if:

1. You gave more than 10% of the support;
2. The amount contributed by you and others to the dependent's support equals more than half the support;
3. Each contributor could have claimed the exemption—except that he or she gave less than half the support; *and*
4. Each contributor who gave more than 10% agrees to let you take the exemption. Each signs a Form 2120, "Multiple Support Agreement." You then attach the forms to your return.

### EXAMPLES

1. You and your two brothers contribute \$2,000 each toward the support of your mother. She contributes \$1,000 of her own to support herself. Your two sisters contribute \$500 each. Thus, the total support comes to \$8,000. Of this, each brother gave 25% ( $\$2,000 \div \$8,000$ ), for a total of 75%. Each sister gave 6¼% ( $\$500 \div \$8,000$ ). You or one of your brothers may claim the exemption. The total of your contributions is more than half of your mother's support. Each of you contributed more than 10%. Among yourselves, you must decide who is to claim the exemption. If you claim the exemption, your brothers must sign Forms 2120, which you attach to your return. If one of your brothers claims the exemption, you sign a Form 2120, which is attached to the return of the brother who claims the exemption. Since neither of your sisters furnished more than 10%, neither can claim the exemption; they need not sign Forms 2120.
2. Your mother's support totals \$6,000; you contribute \$1,800; your brother, \$1,200; your father, \$600; and your mother from her savings contributes \$2,400. Assume your father does not file a tax return claiming your mother as an exemption. You and your brother cannot use your father's contribution to meet the more than 50% test required by Rule 2 above. Your father may not join in a multiple support agreement because your mother is not his dependent for tax purposes, although an exemption may be claimed for a wife on the basis of the marital relationship; see ¶22.2.

## ¶22.11 Divorced or Separated Parents

A special rule favoring the "custodial parent" applies where divorced or separated parents together provide more than half of their child's total support and one or both of them have custody of

the child for more than half the year. The “custodial parent” is the parent who had custody of the child for the greater portion of the year; *see* the custody rules below. Under the special rule, the custodial parent is treated as meeting the support test (¶22.7) for the child even if the noncustodial parent actually paid most of the child’s support. Although the custodial parent is considered to have met the support test, and, thus, is generally able to claim an exemption for the child, the parents may arrange for the noncustodial parent to claim an exemption for a child in a divorce decree or separation agreement, or the custodial parent may waive his or her right to the exemption in favor of the noncustodial parent.

*You must answer yes to the following three tests for the special parental-support rule to apply; otherwise, the general support rules of ¶22.7 must be used.*

**Are you divorced or separated?** For the special rules of this section to apply for 1996, you must be divorced or legally separated under a decree of divorce or separate maintenance, or separated under a written agreement, or live apart at all times during the last six months of 1996.

**Did you and the other parent provide over 50% of the child’s support?** Neither parent may claim the exemption unless the parents together gave more than 50% of the child’s support for 1996. If you remarried, support contributions made during 1996 by your new spouse for the child are treated as your own contributions.

These special rules for parents do *not* apply if several people contributing more than 10% of the support enter into a multiple support agreement (¶22.10) authorizing one of them to claim the exemption.

**Was the child in your custody or the custody of both you and the other parent for more than half the year?** If the child was not in the custody of either or both parents for more than half of 1996, the exemption is claimed by the person who contributed more than 50% of the child’s support (*see* ¶22.7), or, if there is no such person, by the person designated in a multiple support agreement under the rules at ¶22.10.

**Custodial parent.** If the previously discussed three tests are met and you had custody (defined below) for a greater portion of the year than the other parent, you are treated as meeting the support test regardless of your actual support contribution. Thus, you may claim the exemption unless barred under the rules of ¶22.5, ¶22.12, ¶22.13, or ¶22.15. However, you may allow the noncustodial parent to claim the exemption by waiving your right to it. The noncustodial parent may also be able to claim it under a divorce decree or separation agreement discussed in the next column.

**Note:** If a high-income noncustodial parent would be subject to the exemption phaseout (¶22.15), it would be advisable for the lower-earning custodial spouse to claim the exemption.

**Custody** is determined by the terms of a decree of divorce or separate maintenance or a written separation agreement. If a decree

or agreement does not determine custody, the parent with physical custody for most of the year is the custodial parent. This physical custody rule also applies if parents have “split” custody under a decree or agreement, or if the issue of custody is the subject of legal proceedings as of the end of the year.

If you were divorced or separated during 1996, and before that time you had joint custody of the child, the parent who has custody for the greater period of time after the separation is considered the custodial parent.

**Custodial parent’s waiver on Form 8332.** As the custodial parent, you may waive the exemption by signing a written declaration on Form 8332. When you use the form for the first time, you indicate whether you are waiving the exemption for that year only or for future years as well. The noncustodial parent attaches Form 8332 to his or her return and claims the exemption for the child. If the exemption has been waived for future years as well, a copy of Form 8332 must be attached to the noncustodial parent’s returns for the later years.

**Noncustodial parent granted exemption under divorce agreement after 1984.** If you are the noncustodial parent and have been given the unconditional right to the exemption by a divorce decree or separation agreement that went into effect after 1984, you may attach to your return instead of Form 8332 copies of: the page of the agreement allowing you the exemption; the cover page, on which you should write the custodial parent’s Social Security number; and the signature page showing the date of the agreement.

**Noncustodial parent’s exemption under pre-1985 agreement.** If a pre-1985 agreement gives you, as noncustodial parent, the exemption, you must provide at least \$600 for the support of the child in 1996. The exemption must be specifically allocated to you in a decree of divorce or separate maintenance or a written agreement executed before January 1, 1985.

## ¶22.12 Test 4. The Dependent Is a Citizen or Resident

To claim an exemption for a dependent, the dependent must have at some time during 1996 qualified as a:

- Citizen or resident of the United States;
- United States national (one who owes permanent allegiance to the U.S.; principally, a person born in American Samoa who has not become a naturalized American citizen); *or*
- Resident of Canada or Mexico; *see* ¶1.14.

**Child born abroad.** A child born in a foreign country, one of whose parents is a nonresident alien and whose other parent is a U.S. citizen, qualifies as a U.S. citizen and thus as a dependent if the other tests are met.

If you are a U.S. citizen living abroad, you may claim as a dependent a legally adopted child who is not a U.S. citizen or resident if for the entire year your home was the child's principal residence and he or she is a member of your household.

## ¶22.13 Test 5. The Dependent Does Not File a Joint Return

You may not claim an exemption for a dependent who files a joint return with another. For example, if you meet the other four tests entitling you to an exemption for your married daughter as your dependent, but she files a joint return with her husband, you may not claim her as your dependent on your tax return.

**Exception.** Even if your dependent files a joint return, you may claim the exemption where the income of each spouse is under the income limit required for filing a return and the couple files a joint return merely to obtain a refund of withheld taxes. Under these circumstances, their return is considered a refund claim, and a dependency exemption may be claimed.

**Should dependents file separately?** When a married dependent files a joint return, the parent cannot claim an exemption. The loss of the exemption may cost a parent more than the joint return saves the couple. In such a case, it may be advisable for the couple to file separate returns so that the parent may benefit from the larger tax saving.

If the couple decides to revoke their election to file jointly and then file separately in order to preserve the exemption for a parent, they must do so before the filing date for the return. Once a joint return is filed, the couple may not, after the filing deadline, file separate returns for the same year.

## ¶22.14 Reporting Social Security Numbers of Dependents

On your 1996 return, you must list the Social Security number of each dependent who was born before December 1, 1996. Include the number of parents or other adults you claim as dependents, as well

as the number for children. If you fail to do so, the IRS will disallow the exemption and may assess the extra tax using a summary assessment procedure without having to issue a deficiency notice. A Social Security number also must be shown for a dependent living in Mexico or Canada; you may apply for the number at the U.S. embassy or consulate office.

To obtain a Social Security number for a dependent child, contact your local Social Security Administration office. Parents of newborn children may request a number when filling out hospital birth-registration records.

Starting with 1997 returns, a Social Security number must be included for all dependents, regardless of age.

## ¶22.15 Phaseout of Personal Exemptions for Higher Income Taxpayers

You will lose part or all of the \$2,550 deduction for each 1996 personal exemption if your adjusted gross income (AGI) exceeds the threshold amount for your filing status. *Adjusted gross income* is explained at ¶13.7. On your 1996 Form 1040, adjusted gross income is the amount shown on Line 32.

<i>If your 1996 filing status is—</i>	<i>Phaseout applies if AGI exceeds*—</i>	<i>Exemptions completely phased out if AGI exceeds—</i>
Married filing jointly or qualified widow(er)	\$176,950	\$299,450
Head of household	147,450	269,950
Single	117,950	240,450
Married filing separately	88,475	149,725

\* These thresholds are adjusted annually for inflation.

**How the phaseout increases your marginal tax rate.** The phaseout increases 1996 marginal rates according to the number of exemptions claimed. For earnings within the \$122,500 phase-out range (\$61,250 for married filing separately), the effective marginal tax rate increases for each exemption. Thus, taxpayers who support many dependents are hurt more by the phaseout than taxpayers who support few dependents.

### EXEMPTION REDUCTION WORKSHEET

1. Multiply \$2,550 by the number of exemptions claimed on Form 1040, Line 6d. 1
2. Enter adjusted gross income (Line 32, Form 1040). 2
3. Enter base amount for your filing status:
 

Joint return:	\$176,950	
Single:	\$117,950	
Head of household:	\$147,450	
Married filing separately:	\$88,475	3 <u>      </u>
4. Subtract Line 3 from Line 2.\* 4
5. Divide Line 4 by \$2,500 (\$1,250 if married filing separately). Round up to next higher whole number if result is not a whole number (for example, round .005 to 1). 5
6. Multiply Line 5 by 2% and enter the number as a decimal. 6
7. Multiply Line 1 by Line 6. 7
8. Subtract Line 7 from Line 1. **This is the amount that you deduct for exemptions on Line 36, Form 1040.** 8

\*If Line 4 is zero or less, your exemptions are not reduced. Enter the amount from Line 1 on Form 1040, Line 36. If Line 4 is over \$122,500 (\$61,250 if married filing separately), you may not claim a deduction for exemptions. If Line 4 is more than zero but no more than \$122,500 (\$61,250 if married filing separately), proceed to Line 5.

### EXAMPLE

Howard and Jessica are married. In 1996, they filed a joint return and claimed four exemptions. They reported adjusted gross income of \$183,900 on Line 32 of Form 1040. Their exemptions are reduced by \$612 to \$9,588, figured as follows:

1. \$2,550 × 4		\$10,200
2. Adjusted gross income	\$183,900	
3. Base for joint return	<u>176,950</u>	
4. Difference	6,950	
5. \$6,950 (Line 4) ÷ 2,500 (2.78 rounded up to 3)	3	
6. 3 (Line 5) × 2%	.06(6%)	
7. \$10,200 (Line 1) × 6% (Line 6)		<u>612</u>
8. Exemption deduction allowed (Line 1 less Line 7)		\$9,588